

Bayshore Regional Sewerage Authority

Audit Report

December 31, 2012 and 2011

Bart & Bart  
Certified Public Accountants

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**BART & BART CERTIFIED PUBLIC ACCOUNTANTS**

INDEPENDENT AUDITORS' REPORT

To Chairperson and Members  
Bayshore Regional Sewerage Authority  
Union Beach, New Jersey

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Bayshore Regional Sewerage Authority (the Authority), as of and for the years ended December 31, 2012 and 2011, and the related notes to the basic financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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To Chairperson and Members  
Bayshore Regional Sewerage Authority

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### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of December 31, 2012 and 2011, and the respective statements of revenue, expenses, and changes in net assets, and ash flows thereof for the years then ended in accordance with U.S. generally accepted account principles.

### Other Matters

#### Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

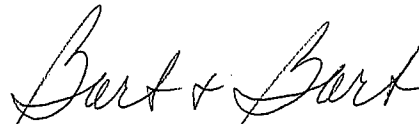
#### Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the Authority's basic financial statements. The supplemental information included on Schedules 1 through 4 are presented for purposes of additional analysis and are not a required part of the basic financial statements, but is presented as additional analytical data as required by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Schedules 1 through 4 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

To Chairperson and Members  
Bayshore Regional Sewerage Authority

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The schedules of expenditures of federal awards and state financial assistance are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations; and New jersey OMB's Circular 04-04, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid respectively, and are not a required part of the basic financial statements.



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Bart & Bart, CPAs

March 26, 2013

BART & BART CERTIFIED PUBLIC ACCOUNTANTS

Report on Compliance and on Internal Control over Financial Reporting Based on an  
Audit of Financial Statements  
Performed in Accordance with Government Auditing Standards

To The Chairperson and Members  
Bayshore Regional Sewerage Authority

We have audited the financial statements of Bayshore Regional Sewerage Authority as of December 31, 2012 and for the year ended December 31, 2012, and have issued our report thereon dated, March 22, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and audit requirements as prescribed by the State of New Jersey.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected, or corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

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Report on Compliance and on Internal Control over Financial Reporting Based on an  
Audit of Financial Statements  
Performed in Accordance with Government Auditing Standards

To The Chairperson and Members  
Bayshore Regional Sewerage Authority

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bayshore Regional Sewerage Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards, and audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey.

This report is intended solely for the information and use of the members of the Authority's Board and its management and for filing with the Division of Local Government Services, Department of Community Affairs, State of New Jersey and is not intended to be and should not be used by anyone other than these specified parties.

March 26, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS



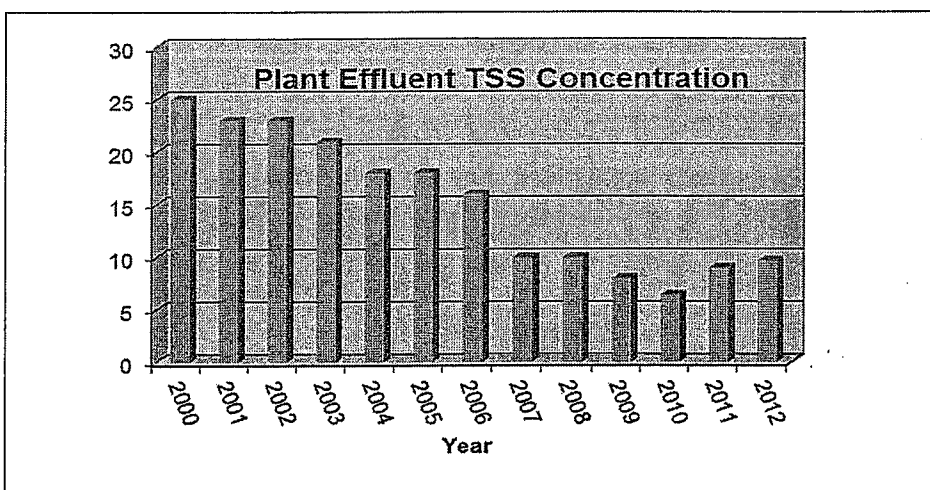
## Management Discussion and Analysis (MD&A)

### *Our Mission*

In 2006, the Authority staff developed a Mission Statement to aid in focusing future direction. "Dedicated to a Clean Environment for Today, Tomorrow, and Generations to Come" was chosen as the statement that best describes who we are, what we do, and why we do it. The Authority staff believes that small continual improvement each year leads to major improvement over time. It is in this spirit that we strive for a minor improvement each year, and it is within this culture that we have achieved substantial results.

### *Water quality*

Since the year 2000 the quality of the water discharged from the treatment plant has improved gradually to the point where it exists today. Figure 1 below illustrates this achievement.



**Fig. 1 Effluent total suspended solids (TSS) per liter of water discharged. State requires value to be 30 mg/l or better**

TSS is a measure of the concentration of total suspended solids in parts per million, or milligrams per liter of water. It is one of the most widely used measures of wastewater treatment performance in the United States. Low TSS values are associated with clean water. The State Department of Environmental Protection (NJDEP) requires the Authority to achieve a value of 30 mg/l as a monthly average. Anything lower than 30 mg/l is an improvement on this state required limit. The Authority has achieved a level as low as 9.7 mg/l as a yearly average for 2012.

### *Decreasing major expenditures*

The Authority budget is a combination of Operating, Capital and debt service expenses. In 2012 the Authority eliminated its debt, decreased operating expenditures and performed necessary capital improvements. The slashing of debt and reduction in operating expenses enabled the Authority to lower sewer rates to its Participants. This lowering of rates in-turn resulted in a reduction in the obligation of rent reserve needed in escrow and the balance was returned to the Participants.

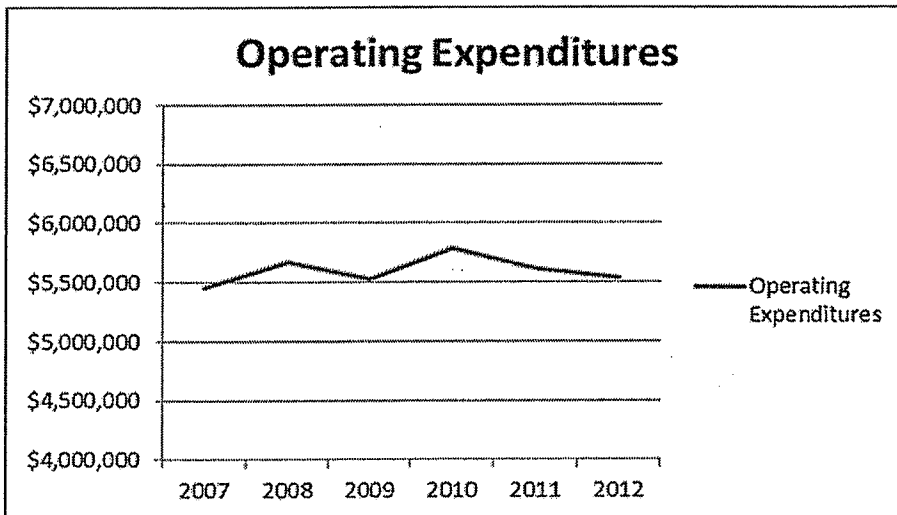


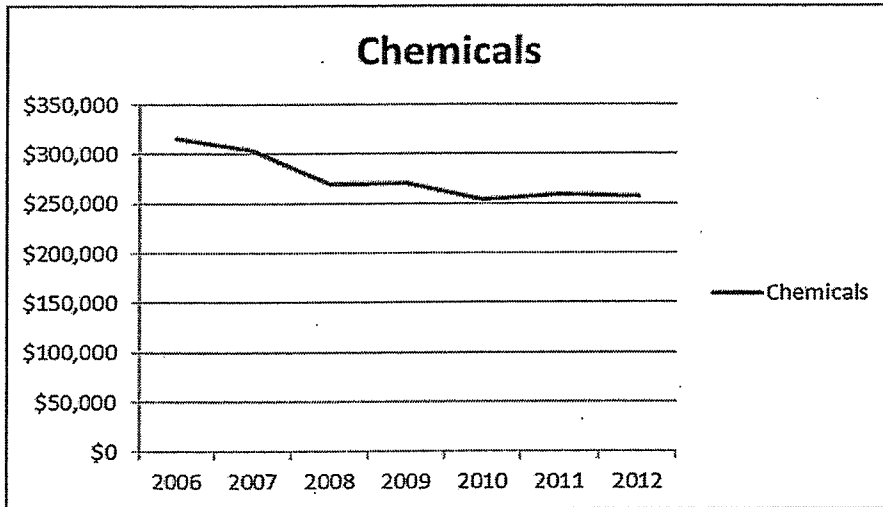
Figure 3 Graph of annual operating expenses 2007 to 2012 depicting reduced operating expenditures for the last two years.

The maintenance of a stable operating budget is only possible by offsetting those increasing line items with decreasing expenditures in other line items.

In October of 2012 Hurricane Sandy hit the New Jersey coastline and damaged infrastructure along the coast and some inland communities. The Authority damage is being assessed from a capital standpoint. The damage created increased operating expenses in salaries due to increase overtime however. Staff was once again successful in reducing operating expenditures elsewhere to offset these and other increases.

### *Chemicals*

Chemical costs required to disinfect the clarified water have decreased as a direct result of the previously mentioned improvements in water quality, as can be seen in figure 3 below the cost of chemical use at the Authority has been on a steady decline for a 5 year period.



**Fig. 3** Reduction in Chemical Costs 2006 to present

The improvement in water quality has also allowed BRSA to use this water throughout the plant in place of city water, further reducing costs.

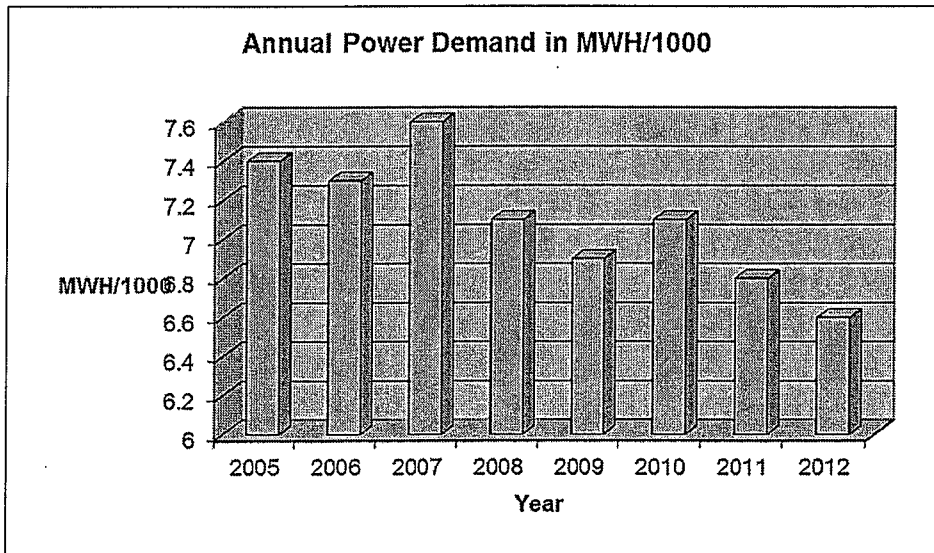
### *Electricity*

The Authority has decreased average power consumption for the past 5 years. One significant area has been a reduction in the amount of energy needed to satisfy the biological process, one of the largest energy consuming portions of the plant.

Authority Staff reduced the demand in the biological process. By reducing the number of organisms needed to treat the wastewater the staff has simultaneously reduced the amount of air required to maintain the population.

Wastewater flows have shown a slight decreasing trend as well contributing to the lower power demands. At the end of 2012 the Authority staff was able to de-energize a portion of the plant capacity thereby reducing the power consumption further. These steps and a reduced rate for

electrical power generation have contributed to a substantial reduction in electrical operating costs for the Authority in 2012.



**Fig 4. Decreasing trend in electricity usage over the past years**

### ***Safety***

For the last eight years the Authority has been selected to receive the New Jersey Utility Authority Joint Insurance Fund “Annual Safety Award” for achieving a perfect score in their Safety Incentive Program. BRSA has an active safety program and has also received a National Award from the Water Environment Federation for the BRSA safety program. The Authority recognizes a “Safety Person of the Year” and a “Safety Suggestion of the year” annually for their contributions to a safe workplace.

### ***Lower rates***

The Authority reduced sewer rates in 2012 by an average of 18%

### ***Hurricane Sandy***

On October 29, 2012 Hurricane Sandy flooded the Borough of Union Beach, NJ where the Bayshore Regional Sewerage Authority is located. The Authority suffered significant damage to its processes but was operating within 30 hours of flooding. Within two weeks the plant was achieving process results similar to those pre-flood. This achievement is testimony to the resiliency of the facility and the dedication of the workforce who worked continuously to return to stable operating conditions. The Authority has contacted its three separate insurance policies

and has submitted application to the Federal Emergency Management Agency for Public Assistance. The costs of the repairs to the damaged equipment will be financed over the useful life of the asset

## FINANCIAL HIGHLIGHTS

- The Authority has invested \$5,948,146 in Wind Turbine Technology and plant upgrades. These funds were provided to the Authority via its participation in the New Jersey Environmental Infrastructure Trust financing program (NJEIET), as well as a capital contribution from the Federal Government through the 2009 American Resource and Recovery Act (ARRA). This ARRA grant was in the form of a one time \$3,850,000 loan principal forgiveness.
- Assets, exclusive of PP&E, decreased by \$9,600,685 primarily due to decreased cash and investments.
- Total liabilities decreased by \$11,761,998 primarily due to regularly scheduled debt service payments of \$10,854,035.
- Revenues from customer treatment charges decreased by \$4,410,471 due to a 17% decreased flow from member towns, as well as an 18% decrease in the rate per million gallons charged to customers.
- Total non-operating revenues increased \$24,700 primarily due to decreased interest earnings and increased development applications.
- Cost of administration decreased by \$80,441 or 16.0%.
- Cost of plant materials and supplies decreased by \$244,106 or 12.0%.
- Net assets equity increased by \$1,955,506 or 4.0%.

## FINANCIAL ANALYSIS

Net assets, over time, serves as a useful indicator of an Authority's financial position. The Authority's net assets (assets less liabilities) was \$61,818,654 as of December 31, 2012.

By far, the largest portion of the Authority's net assets reflects its investment in capital assets, less any related outstanding debt used to acquire those assets. The Authority uses these capital assets to provide services to its customers. Consequently, these assets are not available for future spending. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

FINANCIAL ANALYSIS (Continued)

Expenses:

As noted above, the cost of administration, plant, materials and supplies decreased 2.0% percent. Some reasons for this decrease, as well as the overall change in expenses are as follows:

- The Authority spent \$123,645 on ash removal in 2012 vs. \$26,089 in 2011, a increase of \$97,556.
- Incinerator fuel, natural gas and gasoline costs decreased a combined \$17,680 due to more efficient consumption.
- Power costs decreased 38.0 percent due to a decrease in consumption and cost per KWH. Chemical costs were stable despite an increase in market cost for chemicals such as chlorine, due to increased efficiency.
- Salaries increased \$84,758, due to mandatory increases called for by union collective bargaining agreements.
- Employee benefits increased \$61,763 or 7.0 percent primarily due to an increase in required Authority contributions to the State Pension System, as well as increased health insurance.

AUTHORITY CONTACT INFORMATION

Questions concerning any of the information provided in this report or requests for additional information should be addressed to Robert C. Fischer, Executive Director, at the Bayshore Regional Sewerage Authority, 100 Oak Street, Union Beach, NJ 07735.

## Bayshore Regional Sewerage Authority

## Balance Sheet

December 31, 2012 and 2011

<u>ASSETS</u>	<u>2012</u>	<u>2011</u>
Unrestricted Assets:		
Cash and Cash Equivalents	\$ 254,357	\$ 211,126
Accounts Receivable - Customers, Net (Note 1.D.)	38,849	774,284
Inventory (Note 1.G.)	380,431	362,118
Prepaid Expenses	40,197	38,244
Insurance Claims Receivable	1,533,162	1,800
Other Receivables	-	1,800
Total Unrestricted Assets	<u>\$ 2,246,996</u>	<u>1,387,572</u>
Restricted Assets (Note 1.C.):		
Revenue Fund:		
Investments	5,323,904	2,401,650
Bond Service Fund:		
Investments	817	817
Bond Reserve Fund:		
Investments	-	7,197,191
Construction Fund	1,103,176	1,166,249
General Fund:		
Investments	871,791	4,125,255
Customer Escrow Deposits:		
Rent Reserve	4,173,268	6,536,891
Due from NJEIT	1,752,112	2,102,088
Total Restricted Assets	<u>13,225,068</u>	<u>23,530,141</u>
Plant, Property and Equipment (Note 1.I.)	120,890,684	119,222,374
Less: Accumulated Depreciation	<u>66,104,837</u>	<u>64,230,720</u>
Net Plant, Property and Equipment	54,785,847	54,991,654
Other Assets:		
Unamortized Debt Issue Costs (Note 1.J.)	-	155,036
TOTAL ASSETS	<u>\$70,257,911</u>	<u>\$ 80,064,403</u>

See accompanying notes.



EXHIBIT A  
(Continued)

Bayshore Regional Sewerage Authority

Balance Sheet

December 31, 2012 and 2011

<u>LIABILITIES AND FUND EQUITY</u>	<u>2012</u>	<u>2011</u>
Current Liabilities -		
Payable from Unrestricted Assets:		
Accounts Payable - Operating	\$ 924,288	\$ 407,689
Accounts Payable - Retainage	98,681	107,310
Payroll Deductions Payable	17,985	14,431
Obligation to Customers	1,182,803	31,106
Accrual for Unused Leave and Vacation Time	55,944	48,816
	<u>2,279,701</u>	<u>609,352</u>
Total Current Liabilities Payable from Unrestricted Assets		
Current Liabilities -		
Payable from Restricted Assets:		
Long-Term Bonds Payable -		
Current Portion (Note 2)	-	10,854,035
Escrow Deposits Payable	4,173,268	6,536,891
Accrued Bond Interest Payable	-	59,257
	<u>4,173,268</u>	<u>17,450,183</u>
Total Current Liabilities Payable from Restricted Assets		
Long-Term Liabilities -		
Payable from Restricted Assets:		
2002 Bond Issue Premium	-	91,727
Unamortized 1991B and 1993B Bond Refunding	-	63,705
	<u>-</u>	<u>155,432</u>
Total Long-Term Liabilities Payable from Restricted Assets		
	<u>6,452,969</u>	<u>18,214,967</u>
TOTAL LIABILITIES		
Net Assets:		
Contributed capital, net	6,881,548	7,263,888
Retained earnings		
Construction	1,103,176	1,166,249
Restricted for operations	6,195,695	6,526,905
Restricted for future debt service	817	7,198,008
Unrestricted retained earnings	49,623,706	39,694,386
	<u>56,923,394</u>	<u>54,585,548</u>
Total retained earnings		
	<u>63,804,942</u>	<u>61,849,436</u>
Total Net Assets		
	<u>\$70,257,911</u>	<u>\$80,064,403</u>
TOTAL LIABILITIES AND NET ASSETS		

See accompanying notes.

EXHIBIT BBayshore Regional Sewerage AuthorityComparative Statement of Revenues, Expenses and Changes in Fund EquityYears Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Revenues:		
Treatment Charges	\$ 9,279,082	\$ 13,689,553
Operating Expenses:		
Payroll and Employee Benefits	3,222,097	2,974,155
Plant Materials and Supplies	1,882,597	2,126,703
Administrative and General	435,200	515,641
Depreciation	1,874,117	3,268,383
Total Operating Expenses	<u>7,414,011</u>	<u>8,884,882</u>
Operating Income	<u>1,865,071</u>	<u>4,804,671</u>
Nonoperating Revenue (Expenses):		
Interest Income on Investments - Operating	7,455	24,466
Miscellaneous Income - Applications and Sundry	335,885	294,174
Interest Expense on Bonds	(117,610)	(377,574)
Amortization of Debt Issue Costs	(135,295)	(324,444)
	<u>90,435</u>	<u>(383,378)</u>
Net Income (Before Transfer of Depreciation of Assets Purchased with Contributed Capital)	1,955,506	4,421,293
Transfer of Depreciation to Contributed Capital	<u>382,340</u>	<u>382,340</u>
Net Income	2,337,846	4,803,633
Retained Earnings, January 1 <sup>st</sup>	<u>54,585,548</u>	<u>49,781,915</u>
Retained Earnings, December 31 <sup>st</sup>	<u>56,923,394</u>	<u>54,585,548</u>
Contributed Capital - Net, January 1 <sup>st</sup>	7,263,888	7,646,228
Transfer of Depreciation from Operations	(382,340)	(382,340)
American Resource and Recovery Act	-	-
Contributed Capital - Net, December 31 <sup>st</sup>	<u>6,881,548</u>	<u>7,263,888</u>
Net Assets, End of Year	<u>\$ 63,804,942</u>	<u>\$ 61,849,436</u>

EXHIBIT CBayshore Regional Sewerage AuthorityComparative Statement of Cash FlowsYears Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash Provided by (Used for) Operations:		
Net Income	\$ 1,955,506	\$ 4,421,293
Adjustments to Reconcile Net Income to Net Cash:		
Depreciation	1,874,117	3,268,383
Amortization	135,295	324,444
Customer Accounts Receivable	735,435	294,283
Prepaid Expenses	(2,811)	(514)
Inventory	(18,313)	(25,300)
Other Receivables	(1,531,362)	(1,186)
Current Liabilities Payable from Unrestricted Assets	1,670,349	39,939
Current Liabilities Payable from Restricted Assets	<u>(13,431,307)</u>	<u>761,255</u>
Net Cash Provided by Operations	<u>(8,613,091)</u>	<u>9,082,597</u>
Cash Flows Provided by (Used for) Investing Activities:		
Restricted Assets	10,305,073	(258,380)
Plant, Property and Equipment	<u>(1,648,751)</u>	<u>(1,577,248)</u>
Net Cash Used for Investing Activities	<u>8,656,322</u>	<u>(1,835,628)</u>
Cash Flows Provided by (Used for) Financing Activities:		
Bonds Payable	-	-
Long-Term Debt - Net	-	(7,317,149)
Unamortized Debt Issue Cost	-	-
Contributed Capital	<u>-</u>	<u>-</u>
Net Cash Used for Financing Activities	<u>-</u>	<u>(7,317,149)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	43,231	(70,180)
Cash and Cash Equivalents:		
Beginning of Period	<u>211,126</u>	<u>281,306</u>
End of Period	<u>\$ 254,357</u>	<u>\$ 211,126</u>

See accompanying notes.

Bayshore Regional Sewerage Authority  
Notes to Financial Statements  
December 31, 2012 and 2011

1. Summary of Significant Accounting Policies

A. General

The Bayshore Regional Sewerage Authority (Authority) is a public body politic and corporate constituting a political subdivision of the State of New Jersey created under Chapter 138 of the Sewerage Authority Law of New Jersey of 1946, as amended, pursuant to the action of the governing bodies of Hazlet Township, Holmdel Township and the Borough of Union Beach in 1968.

The Authority is authorized and empowered to acquire, construct, maintain, operate or improve works for the collection, treatment, and disposal of sewage or other wastes in return for the participants agreeing to pay all charges necessary to cover debt service requirements and all obligations of the Authority through sewer charges for usage. The present participants are Hazlet Township, Holmdel Township, Borough of Union Beach, Borough of Keyport, Keansburg Municipal Utilities Authority, Borough of Matawan, Western Monmouth Utilities Authority, and the Township of Aberdeen.

As a public body under existing statute, the Authority is exempt from all federal and state taxes.

B. Basis of Financial Statements

The financial statements of the Authority have been prepared on an accrual basis in accordance with generally accepted accounting principles applicable to enterprise funds of state and local governments.

Cash, Cash Equivalents and Investments

New Jersey Authorities are required by N. J.S.A. 40A:5-14 to deposit public funds in a bank or trust company having its place of business in the State of New Jersey and organized under the laws of the United States or of the State of New Jersey or the New Jersey Cash Management Fund. N.J.S.A. 40A:5-15.1 provides a list of securities which may be purchased by New Jersey Authorities. The Authority is required to deposit funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act ("GUDPA"). GUDPA was enacted in 1970 to protect governmental units from a loss of funds on deposit with a failed banking institution in New Jersey.

N.J.S.A. 17:9-42 requires governmental units to deposit public funds only in public depositories located in New Jersey, where the funds are secured in accordance with the Act.

Public funds are defined as the funds of any government unit. Public depositories include banks (both state and national banks), savings and loan institutions and savings banks, the deposits of which are federally insured. All public depositories pledge collateral, having a market value of five percent of the average daily balance of collected public funds, to secure the deposits of governmental units. If a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories in the collateral pool, is available to pay the full amount of their deposits to the governmental units.

Bayshore Regional Sewerage Authority  
Notes to Financial Statements  
December 31, 2012 and 2011

1. Summary of Significant Accounting Policies (continued)

C. Accounts Required by the 1985 General Bond Resolution

In accordance with the 1985 general bond resolution, the Authority has established the following cash and investments accounts for the deposit, in the priority of the order listed, of all revenue received by the Authority. Each of the following accounts are held by the trustee except the operating account.

<u>ACCOUNT</u>	<u>AMOUNT</u>	<u>USE FOR WHICH RESTRICTED</u>
Revenue	All revenue of the Authority.	Transfers to the various accounts in the order that follows.
Operating	Amount of the operating requirement as defined by the resolution.	Reasonable and necessary operating expenses as provided for in the annual budget.
Bond Service Funds	Amount needed to equal the bond service requirement.	Principal and interest on the bonds.
Sinking Fund	As required.	Principal on bond issues with a sinking fund requirement.
Bond Reserve Fund	An amount equal to the bond reserve requirement.	Transfers to meet minimum levels required in the bond service or sinking funds. Any excess may be transferred into the revenue fund.
General Fund	Any amount after meeting requirements of the funds listed above.	Provided all reserve requirements have been met, funds may be spent for any lawful purpose of the Authority.
Construction Fund	Proceeds from sale of bonds related to construction projects, proceeds of insurance related to construction projects, and government grants and payments directed to fund by an Authority officer.	All project related construction costs.

Effective July 12, 2012, the last of the Revenue Bonds issued under this Resolution were paid by the Authority. This releases the Authority from the covenants of this Resolution.

Bayshore Regional Sewerage Authority  
Notes to Financial Statements  
December 31, 2012 and 2011

1. Summary of Significant Accounting Policies (continued)

D. Accounts Receivable - Customers

Accounts receivable due from customers are shown net of increases or decreases in charges to participants calculated on actual flows.

E. Due from State of New Jersey Environmental Infrastructure Trust ("NJEIT")

The Authority in 2012 participated in a financing program for improvements to the treatment plant and the construction of a Wind Turbine located in Union Beach, New Jersey. The funds borrowed are held in trust by the NJEIT for the Authority and are remitted on a reimbursement basis. The amount consists of the following:

	<u>December 31, 2012</u> <u>Balance</u>
Federal	\$ 1,752,112
State	<u>-</u>
	<u>\$ 1,752,112</u>

F. Investments

Investments are recorded at cost, which approximates market. The Authority's investment modes are limited by the 1985 general bond resolution.

G. Unemployment Insurance

The Authority is insured under the rules and regulations of the State of New Jersey Unemployment Compensation Law, whereby it pays into the state fund a percentage of payroll costs to cover benefits to be paid to former employees of the Authority.

H. Inventory

Inventory consists principally of machinery replacement parts and supplies. The inventory is stated at cost determined on a first-in, first-out basis. An adjustment was made to the December 31, 2012 inventory dollar amount due to an increase in amounts of inventory and cost thereof.

I. Grants-In-Aid

Federal and state grants-in-aid of construction are recorded in the period received. Grants received by the Authority are restricted by the grantor to the design and construction of plant facilities and are recorded as contributed capital.

Bayshore Regional Sewerage Authority

Notes to Financial Statements

December 31, 2012 and 2011

1. Summary of Significant Accounting Policies (continued)

J. Plant, Property and Equipment

Plant, property and equipment are stated at cost, which includes direct construction costs and other expenditures related to construction. Construction costs are charged to construction in progress until such time as given segments of the project are completed and put into service.

Depreciation is determined on a straight-line basis for all plant and equipment. Depreciation on assets acquired with Grants-in-Aid is recorded as a reduction of contributed capital. Depreciation is provided over the following estimated useful lives:

	<u>Cost</u>	<u>Useful Life</u>
Furniture, Equipment & Computers	\$ 914,169	5 - 10 Years
Vehicles	237,077	5 Years
Lines	14,476,792	50 Years
Pump Stations	5,287,720	40 Years
Plant Buildings and Piping	60,882,916	50 Years
Plant Equipment	26,549,152	15 Years
Incinerator	4,183,252	20 Years
Administration Building	213,283	40 Years
Land and Right of Ways	1,009,479	-
Construction in process	<u>7,136,844</u>	-
Total	<u>\$120,890,684</u>	

K. Unamortized Debt Issue Costs

Deferred debt issue costs incurred with the various note and bond issues are being charged to operations over the life of the respective issues on a straight-line basis.

L. Statements of Cash Flows

For purposes of the statement of cash flows, the Authority considers unrestricted investments with maturities of three months or less to be cash equivalents.

Bayshore Regional Sewerage Authority  
Notes to Financial Statements  
December 31, 2012 and 2011

2. Bonds Payable

The bonds payable consist of the following:

	December 31,	
	2012	2011
Sewer Revenue Refunding Bonds, Series 2002	\$ -	\$ 6,045,000
New Jersey Wastewater Treatment Fund Loan - 1991	-	-
New Jersey Wastewater Treatment Fund Loan - 1993C	-	385,725
Subordinated Sewer Revenue Bonds - Series 1991A	-	-
Subordinated Sewer Revenue Bonds - Series 1991B	-	-
Subordinated Sewer Revenue Bonds - Series 1993B	-	548,310
NJ Environmental Infrastructure Trust-Series 2010	-	3,875,000
Current Portion	-	(10,854,035)
Net	-	\$ -

Sewer Revenue Bonds, Series 2002

In August 2002, the Authority issued \$25,915,000 of noncallable, Sewer Revenue Refunding Bonds (Series 2002). The proceeds of the Series 2002 bonds, together with other funds of the Authority, were (I) used to advance refund certain of the outstanding principal amount of the Authority's Sewer Revenue Bonds, Series 1977, Subordinated Sewer Revenue Bonds, Series 1993A and Subordinated Sewer Revenue Bonds, Series 1996, and (II) pay the costs and expenses in connection with the issuance of the 2002 bonds. These bonds are due in amounts and at interest rates (interest to be paid semi-annually on May 1 and November 1 commencing November 1, 2002) shown on the table following:

Due Date	Mandatory Sinking Fund	Rate of Interest	Annual Interest Charge
<u>February 1:</u>			
2011	3,115,000	3.60%	112,140
2012	6,045,000	5.00%	302,250
	<u>\$ 9,160,000</u>		



Bayshore Regional Sewerage Authority  
Notes to Financial Statements  
December 31, 2012 and 2011

2. Bonds Payable (continued)

Subordinated Sewer Revenue Bonds, Series 1993B

On October 15, 1993, the Authority issued bonds to the New Jersey Wastewater Treatment Trust and the State of New Jersey, as part of the 1993 New Jersey Wastewater Treatment Financing Program. The proceeds of the issue are to be used for water pollution control facility expansion and plant bar screen improvements. Obligations to the Trust for principal repayment and interest are as follows:

<u>Due Date</u> <u>February 1</u>	<u>Principal</u> <u>Amount</u>	<u>Rate of</u> <u>Interest</u>	<u>Annual</u> <u>Interest</u> <u>Charge</u>
2011	545,000	4.80%	26,160
2012	<u>575,000</u>	4.80%	27,600
	1,120,000		
New Jersey Wastewater Treatment Trust 2003 Refunding Bond Savings	<u>103,556</u>		
	<u>\$ 1,016,444</u>		

In 2003 the New Jersey Wastewater Treatment Trust issued wastewater treatment Insured refunding bonds, Series 2003, that will result in a reduction of Principal and interest on the 1993B bonds of \$257,271.01 through February 1, 2012.

Bayshore Regional Sewerage Authority  
Notes to Financial Statements  
December 31, 2012 and 2011

2. Bonds Payable (continued)

New Jersey Wastewater Treatment Fund Loan - 1993C

On October 15, 1993, the Authority entered into a loan agreement with the State of New Jersey, acting by and through the New Jersey Department of Environmental Protection and Energy, as part of the 1993 New Jersey Wastewater Treatment Financing Program. The proceeds of the interest-free loan of \$6,947,307 are to be used for water pollution control facility expansion. Obligation to the State for repayment is as follows:

<u>Year</u>	<u>Principal Amount</u>
2011	383,234
2012	<u>385,277</u>
	<u>\$ 762,511</u>

Bayshore Regional Sewerage Authority  
Notes to Financial Statements  
December 31, 2012 and 2011

2. Bonds Payable (continued)

Subordinated Sewer Revenue Bonds, Series 2010A

On March 10, 2010, the Authority issued bonds to the New Jersey Environmental Infrastructure Trust and the State of New Jersey, as part of the 2010 New Jersey Environmental Infrastructure Trust Financing Program. The proceeds of the issue are to be used for Waste Water Treatment Plant Upgrading and a Wind to Energy Project. Obligations to the Trust for principal repayment and interest are as follows:

<u>Due Date</u>	<u>Principal Amount</u>	<u>Rate of Interest</u>	<u>Annual Interest Charge</u>
June 15, 2012	\$1,950,000	5.00%	\$97,500

New Jersey Environmental Infrastructure Trust Loan - 2010

On January 31, 2010, the Authority entered into a loan agreement with the State of New Jersey, acting by and through the New Jersey Department of Environmental Protection and Energy, as part of the 2010 New Jersey Wastewater Treatment Financing Program. Of the proceeds of the interest-free loan of \$5,775,000, \$3,850,000 was forgiven as a result of the authority's participation in the American Recovery and Reinvestment Act of 2009. The amount forgiven is shown as part of the Contributed Capital-Net of Depreciation on the balance sheet. As a result, obligation to the State for repayment is as follows:

<u>Year</u>	<u>Principal Amount</u>
2011	-0-
2012	<u>1,925,000</u>
	<u>\$ 1,925,000</u>

NOTE 3. COMMITMENTS AND CONTINGENCIES

Construction contracts or those of a capital nature were awarded and encumbered on the internal records of the Authority; however, in order to comply with accounting principles, they have not been reflected on the financial statements of the Authority as of December 31, 2012.

The purpose and remaining balances at December 31, 2012 are as follows:

2010 Wind to Energy Project:	<u>\$1,963,599.00</u>
	<u>\$1,963,599.00</u>

Bayshore Regional Sewerage Authority  
Notes to Financial Statements  
December 31, 2012 and 2011

NOTE 4. SERVICE CONTRACTS

As of December 31, 2011, the following entities have entered into service agreements with the Authority: Hazlet Township; Holmdel Township; the Borough of Union Beach; the Borough of Keyport, the Borough of Keansburg, the Borough of Matawan; the Township of Aberdeen; and the Western Monmouth Utilities Authority (collectively, the "Local Units"). The Authority derives substantially all of its revenues from service charges paid by the Local Units of the Authority pursuant to the Service Agreements, entered into by the Authority with each of the Local Units.

The first of these service agreements expired on June 24, 2012. As of the date of issuance of this report however, the Authority has secured new service agreements with all but two of the local units. This will materially effect the Authority's ability to budget for ongoing operations, as well as capital projects after the expiration date. Representatives of the local unit, as well as the Authority's Management are in ongoing negotiations to secure a new service agreement, and in the opinion of the Authority's Management, a new service agreement will be in place by the time the Authority approves its 2014 Operating and Capital Budget.

NOTE 5. INSURANCE CLAIMS RECEIVABLE

On October 29, Super Storm Sandy made landfall along the Southern Atlantic Coast of New Jersey. The resulting storm surge and winds caused catastrophic damage to the community of Union Beach, where the Authority is located.

The Authority sustained significant damage to its plant and infrastructure, including the loss of both its sludge incinerators, vehicles, and its blower building. As of December 31, 2012, the Authority has expended \$1,783,165 in repairs, equipment replacement and alternative treatment methods in order to continue to service its customer base. The full extent and cost of the damage caused by this extraordinary event has yet to be finalized and measured.

Certain of the expenses incurred by the Authority and discussed above will be eligible for a combination of insurance coverage and financial assistance from Federal Emergency Management Agency. Many of these expenditures will be reimbursable at a minimum 75% level. The Authority anticipates, however, that many of these expenses will be reimbursable at a 90% or above level. Certain of these expenses will be capital in nature, and will be financed over the useful life of the asset. The amount shown as Insurance Claims receivable on the balance sheet is shown net of a \$250,000 reimbursement from one of the Authority's insurance carriers.

Bayshore Regional Sewerage Authority  
Notes to Financial Statements  
December 31, 2012 and 2011

NOTE 6. EMPLOYEE RETIREMENT SYSTEM

The State of New Jersey sponsors and administers the following contributory defined benefit public employee retirement system ("retirement system") covering those Authority employees who are eligible for pension coverage.

Public Employees' Retirement System (PERS) - established in January 1955, under the provisions of N.J.S.A. 43.15A to provide coverage, including post-retirement healthcare for those eligible employees whose local employers elected to do so, to substantially all full-time employees of the State or any county, municipality, school district, or public agency provided the employee is not a member of another State-administered retirement system. Membership is mandatory for such employees and vesting occurs after 8 to 10 years of service for pension benefits and 25 years for post-retirement healthcare coverage.

According to state law, all obligations of the PERS retirement system will be assumed by the State of New Jersey should the retirement system be terminated.

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information of each of the above systems, funds, and trust. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey 08625-00295.

BASIS OF ACCOUNTING

The financial statements of the PERS pension fund are prepared on the accrual basis of accounting. Employer contributions are recognized when payable to the fund. Benefits or refunds are recognized when due and payable in accordance with the terms of the fund.

INVESTMENT VALUATION

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair values.

The State of New Jersey, Department of the Treasury, Division of Investment, issues publicly available financial reports that include the financial statements of the State of New Jersey Cash Management Fund, Common Pension Fund A, Common Pension Fund B, Common Pension Fund D and Common Pension Fund E. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Investment, P.O. Box 290, Trenton, New Jersey 08625-0290.

Bayshore Regional Sewerage Authority  
Notes to Financial Statements  
December 31, 2012 and 2011

NOTE 6. EMPLOYEE RETIREMENT SYSTEM (Continued)

CONTRIBUTION REQUIREMENT

The contribution policy is set by laws of the State of New Jersey and, in most retirement systems, contributions are required by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. The PERS pension fund provides for employee contributions based on 5.5% of the employees' annual compensation, as defined. Employers are required to contribute at an actuarially determined rate. The actuarially determined employer contribution includes funding for cost-of-living adjustments and noncontributory death benefits in the PERS. In the PERS, the employer contribution includes funding for post-retirement medical premiums for participating local governments.

For PERS, which is a cost sharing multi-employer defined benefit pension plan, the annual pension cost differs from the annual required contribution due to the enactment of Chapter 114, P.L. 1997.

During the years ended December 31, 2012, 2011, and 2010, the Authority was required to contribute for normal cost pension contributions the following amounts which equaled the required contributions for each year:

<u>Year Ended</u> <u>December 31</u>	<u>PERS</u>
2010	\$ 161,766
2011	211,376
2012	217,300

NOTE 7. POST-RETIREMENT MEDICAL BENEFITS

The State of New Jersey sponsors and administers the post-retirement health benefit program plans for participating government agencies including the Authority. The Plans are cost-sharing multiple employer-defined benefit plans.

As a result of implementing Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Post-employment Benefit Plans Other than Pension Plans* (OPEB), effective for Fiscal Year 2007, the State Health Benefits Program (SHBP), and the Prescription Drug Program (PDP), and Post-Retirement Medical (PRM) of the PERS are combined and reported as Pension and Other employee Benefit Trust funds in the State's Comprehensive Annual Financial Report (CAFR). Specifically, SHBP-State, PDP-State, and the PRM are combined and reported as a fund (Health Benefits Program Fund - State). The SHBP-Local, PDP-Local, and the PRM are combined and reported as a separate fund (Health Benefits Program Fund -Local) in the State's CAFR. The health benefit programs had a total of 454 state and local participating employers and contributing entities for Fiscal Year 2008.

Bayshore Regional Sewerage Authority  
Notes to Financial Statements  
December 31, 2012 and 2011

NOTE 7. POST-RETIREMENT MEDICAL BENEFITS (Continued)

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information of the above trusts. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey 08625-0295.

BASIS OF ACCOUNTING

The financial statements of the health benefit programs are prepared on the accrual basis of accounting. Employer contributions are recognized when payable to the health benefit programs. Benefits or refunds are recognized when due and payable in accordance with the terms of the health benefit programs.

INVESTMENT VALUATION

Investments are reported at fair value. Securities traded on a national or international exchange is valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair values.

The State of New Jersey, Department of Treasury, Division of Investment, issues publicly available financial reports. The financial reports maybe obtained by writing to the State of New Jersey, Department of the Treasury, Division of Investment, P.O. Box 2909, Trenton, New Jersey 08625-0290.

FUNDING POLICY

P.L. 1987, c. 384 and P.L. 1990, c.6 required the Public Employees' Retirement System to fund post-retirement medical benefits for those State and participating local government employees who retire after accumulating 25 years of credited service or on a disability retirement. As of June 30, 2008, there were 80,181 retirees receiving post-retirement medical benefits. The cost of these benefits is funded through contributions by the State and participating local governments in accordance with P.L. 1994, c.62. Funding of post-retirement medical benefits changed from a pre-funding basis to a pay-as-you-go basis beginning in Fiscal Year 1994.

P.L. 1977, c. 136 provides for the State and participating local governments to pay health benefits on a pay-as-you-go basis for all enrolled retired employees, regardless of retirement date, under two provisions. The first is for employees whose pensions are based on 25 years or more of credited service (except those who elect a deferred retirement). The second is for retired employees who are eligible for a disability retirement regardless of years of service.

Bayshore Regional Sewerage Authority  
Notes to Financial Statements  
December 31, 2012 and 2011

NOTE 7. POST-RETIREMENT MEDICAL BENEFITS (Continued)

FUNDING POLICY (Continued)

PERS retirees are excluded from the provisions set forth in P.L. 1977, c. 136 since their health benefits coverage is funded through each of their respective pension fund systems via an annual appropriation.

The State annually sets the employer contribution rate based on the *annual required contribution of the employers (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The Authority had no required contributions to the State Health Benefits Program Fund for post-retirement benefits for the year's ended December 31, 2012, 2011 or 2010.



SCHEDULE 1

Bayshore Regional Sewerage Authority

Schedule of Revenue, Expenses and Changes in Retained Earnings

Reserved and Unreserved

Year Ended December 31, 2012

	Unreserved			Reserved			Totals	
	Revenue Fund	Bond Service Fund	Bond Reserve Fund	General Fund	Construction	2012	2011	
Operating Revenues:								
Treatment Charges	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,279,082	\$ 13,689,553	
Operating Expenses:								
Payroll & Employee Benefits	3,222,097	-	-	-	-	3,222,097	2,974,155	
Plant Materials and Supplies	1,882,597	-	-	-	-	1,882,597	2,126,703	
Administrative and General	435,200	-	-	-	-	435,200	515,641	
Depreciation	1,874,117	-	-	-	-	1,874,117	3,268,383	
Total Operating Expenses	7,414,011	-	-	-	-	7,414,011	8,884,882	
Operating Income	1,865,071	-	-	-	-	1,865,071	4,804,671	
Nonoperating Revenues (Expenses):								
Interest Income on Investments								
- Operating	40	-	2,418	-	-	2,458	24,088	
- Construction	-	-	-	3,709	83	3,792	83	
Miscellaneous Income	335,885	-	-	-	-	335,885	294,174	
Interest Expense on Bonds	(117,610)	-	-	-	-	(117,610)	(377,574)	
Amortization of Debt Issue Cost	(135,295)	-	-	-	-	(135,295)	(324,444)	
Net Income Before Transfers	1,948,091	-	2,418	3,709	83	1,955,301	4,421,293	
Transfers:								
Depreciation on Assets Purchased with Contributed Capital	382,340	-	-	-	-	382,340	382,340	
Interfund Net Receipts and Disbursements	7,598,889	-	(7,199,609)	(3,257,173)	(63,156)	-	-	
Increase (Decrease) in Retained Earnings	9,929,320	-	(7,197,191)	(3,253,464)	(63,073)	2,337,846	4,803,633	
Retained Earnings, January 1st	39,694,386	817	7,197,191	4,125,255	1,166,249	54,585,548	49,781,915	
Retained Earnings, December 31st	\$49,623,706	\$ 817	\$ -	\$ 871,791	\$ 1,103,176	\$ 56,923,394	\$ 54,585,548	

Bayshore Regional Sewerage Authority

Schedule of Cash Receipts, Cash Disbursements and Changes in Cash

Unrestricted Accounts

Year Ended December 31, 2012

	Incoming Revenue Account	Regular Account	Payroll Account	Petty Cash Account	Total
Cash - December 31, 2010	\$ -	\$ 61,070	\$ 150,231	\$ 300	\$ 211,601
Cash Receipts:					
Service Charges	11,129,755	-	-	-	11,129,755
Outfall Charges	926,827	-	-	-	926,827
Transfers from Other Funds	-	8,941,116	2,528,833	-	11,469,949
Rent Reserve	-	-	-	-	-
Permits and Applications	337,520	-	-	-	337,520
Interest	-	294	126	-	420
Miscell. Income and Refunds	286,026	-	-	-	286,026
Total Cash Available	12,680,128	9,002,480	2,679,190	300	24,362,098
Cash Disbursements:					
Transfer to Other Funds	12,680,123	-	-	-	12,680,123
Net Payroll and Payroll Taxes Operations	-	8,905,903	2,521,390	-	2,521,390
	-	-	-	-	8,905,903
Total Cash Disbursements	12,680,123	8,905,903	2,521,390	-	24,107,416
Cash - December 31, 2011	\$ 5	\$ 96,577	\$ 157,800	\$ 300	\$ 254,682

Bayshore Regional Sewerage Authority

Schedule of Cash Receipts, Cash Disbursements and Changes in Cash and Investments

Restricted Accounts

Year Ended December 31, 2012

	Revenue	Bond Service Fund	Bond Reserve Fund	General Fund	Escrow Deposits	Construction Fund	Total
Cash and Investments - December 31, 2011	\$ 2,401,650	\$ 817	\$ 7,197,191	\$ 4,125,253	\$ 6,536,891	\$ 1,166,249	\$21,428,051
Cash Receipts:							
Transfer from Incoming Revenue Account	13,500,888	-	-	-	-	-	13,500,888
Interest Received	-	-	2,418	3,710	13,699	123	19,950
Rent Reserve Deposits	-	-	-	-	-	-	35,971
Transfer from Other Funds	-	954,122	-	-	35,971	-	954,122
Received from NJEIT	-	-	-	-	-	350,005	350,005
Total Cash and Investments Available	15,902,538	954,939	7,199,609	4,128,963	6,586,561	1,516,377	36,288,987
Cash Disbursements:							
Debt Service	-	-	7,199,609	-	-	-	7,199,607
Rent Reserve Received	-	-	-	-	2,413,292	-	2,413,292
Construction	-	-	-	-	-	1,413,109	1,413,109
Transfers to Other Funds and Accounts	10,578,634	954,122	-	3,257,172	-	-	14,789,928
Total Cash Disbursements	10,578,634	954,122	7,199,609	3,257,172	2,413,292	413,109	24,815,938
Cash and Investments - December 31, 2012	\$ 5,323,904	\$ 817	\$ -	\$ 871,791	\$ 4,173,269	\$ 1,103,268	\$11,473,049
Balance Comprised of:							
Investments - Cash	\$ -	\$ -	\$ -	\$ -	-	-	\$ -
U.S. Treasury Obligations	5,323,904	817	-	871,791	-	1,163,268	7,299,780
Bank Accounts	-	-	-	-	4,173,269	-	4,173,049
	\$ 5,323,904	\$ 817	\$ -	\$ 871,791	\$ 4,173,269	\$ 1,103,268	\$11,473,049

Bayshore Regional Sewerage AuthoritySchedule of Operating Revenues and Costs FundedBy Operating Revenues Compared to BudgetFor the Year Ended December 31, 2012With Comparative Actual Amounts for the Year Ended December 31, 2011

	<u>2012</u> <u>Budget</u>	<u>2012</u> <u>Actual</u>	<u>2011</u> <u>Actual</u>
Revenues:			
Treatment Charges	\$ 10,420,398	\$ 9,279,082	\$ 13,689,553
Interest on Investments	-	7,455	24,466
Permits and Applications	-	335,885	291,543
Sundry	15,000	-	2,631
Total Operating Revenues	<u>\$ 10,435,398</u>	<u>\$ 9,622,422</u>	<u>\$ 14,008,193</u>
Expenses:			
Salaries - Superintendents	451,000	460,186	374,880
- Plant Operations	1,557,731	1,459,720	1,357,641
- Commissioners and Project Managers	140,260	141,723	140,260
- Office Staff	123,930	115,835	117,835
Pension	217,300	217,300	211,376
Social Security Tax	173,879	166,337	152,147
Unemployment Compensation Insurance	10,226	5,735	5,966
Health Insurance	751,462	650,041	606,369
Life Insurance	7,820	5,735	7,677
Uniform and Safety Shoes	7,495	6,797	3,803
Memberships	14,000	13,340	22,744
Training and Seminars	24,000	22,048	11,989
Meal Allowance	-	-	-
Sick-Vacation-Holiday Pay	-	7,128	1,705
Electric Plant	915,000	531,319	856,768
Incineration Fuel	245,000	319,499	279,925
Natural Gas	85,000	75,115	97,591
Plant Telephone	2,400	3,359	2,551
Water	43,516	37,925	43,338
Gasoline	15,750	13,160	12,578
Machinery Repairs	120,000	115,343	90,529
Computer Maintenance	8,000	8,680	12,244
Service Contracts	92,000	48,187	75,358
Major Projects/Repairs	18,000	3,512	25,954
Electrical/Instrument Repairs	43,000	20,684	31,839
Chemicals	291,000	257,479	258,992
Operating Supplies	13,600	12,206	15,339
Grounds Maintenance	12,000	8,563	11,025
Fire and Safety Equipment	16,000	10,641	10,168
Incinerator Sand	5,000	6,107	1,541
Major Projects	8,000	24	-
Scavengers	34,708	21,416	29,565
Ash Removal	57,250	123,645	26,089

SCHEDULE 4  
(Continued)

Bayshore Regional Sewerage Authority

Schedule of Operating Revenues and Costs Funded

By Operating Revenues Compared to Budget

For the Year Ended December 31, 2012

With Comparative Actual Amounts for the Year Ended December 31, 2011

	<u>2012</u> <u>Budget</u>	<u>2012</u> <u>Actual</u>	<u>2011</u> <u>Actual</u>
Expenses (continued):			
Lab Chemicals and Supplies	\$ 21,000	\$ 25,921	\$ 25,576
Lab Calibrations	10,000	9,412	9,091
Electric Pump Stations	80,000	59,543	68,076
Telephone - Alarm System	3,500	5,183	5,631
Line Maintenance, Parts, and Supplies	10,000	13,873	15,986
Truck Expense	4,500	6,547	4,075
Water - Pump Stations	14,000	17,984	15,686
Line Rehabilitation	5,000	-	-
TV Inspection/Cleanings	25,000	-	-
Sludge Testing	67,020	37,730	35,724
Fees and Permits	50,000	31,872	25,212
Municipal Host Benefit	60,000	8,944	13,647
Professional Fees - Legal	75,000	52,008	15,307
- Accounting	34,500	28,148	34,166
- Engineering	50,000	51,961	127,173
- Trustee Fees	68,000	24,021	48,802
- Consultants; Other	35,000	8,902	9,599
Office Expense - Office Maintenance	7,000	5,439	920
- Insurance	274,000	232,151	237,772
- Advertisements	8,000	1,917	4,079
- Members' Travel	-	-	-
- Telephone	2,000	1,927	3,082
- Office Supplies	7,000	9,235	7,903
- Printing and Postage	3,200	1,812	2,910
- Office Equip. Rental	2,200	990	2,472
- Promotions	2,500	3,100	2,125
- Sundry	3,500	12,536	5,710
Interest Expense	298,598	117,610	377,574
Other Costs Funded By Operating Revenues:			
Principal Maturities	10,853,586	10,854,035	6,673,952
Capital Outlays	-	429,580	621,685
Amortization of Debt Issue Cost	-	135,294	324,444
Depreciation	-	1,874,117	3,268,382
Total Costs Funded by Operating Revenues	17,578,431	18,950,531	16,851,765
Excess (Deficit)	<u>(7,143,033)</u>	<u>(9,328,109)</u>	<u>(2,874,354)</u>
	<u>\$10,435,398</u>	<u>\$ 9,622,422</u>	<u>\$14,008,193</u>

ROSTER OF OFFICIALS

<u>Authority Members</u>	<u>Position</u>	<u>Amount of Surety Bond</u>
Kathleen Parsells	Chairperson	\$ -
David Cohen	Vice Chairperson	-
Walter Vella	Treasurer	50,000
Michael Tedeschi	Assistant Treasurer	-
James Dinardo	Secretary	-
Bart Sutton	Asst. Secretary	-
 <u>Other Officials</u>		
Robert C. Fischer	Executive Director	50,000
 <u>All Other</u>		
Office Staff	-	50,000
Plant Employees	-	50,000
 <u>Surety Company</u>		
NJ Utility Authorities Joint Insurance Fund		
Westchester Surplus Lines Ins.		

SINGLE AUDIT SECTION

**BART & BART CERTIFIED PUBLIC ACCOUNTANTS**

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR AND STATE OF NEW JERSEY OMB CIRCULAR 04-04

To the Board of Commissioners  
Bayshore Regional Sewerage Authority  
Union Beach, New Jersey

Compliance

We have audited the compliance of The Bayshore Regional Sewerage Authority (the "Authority") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement and State of New Jersey OMB Circular 04-04 that could have a direct and material impact on each of its major federal and state programs for the year ended December 31, 2010. The Authority's major federal and state programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion of the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; the audit requirements as prescribed by the Division of Finance, State of New Jersey; OMB Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations, and New Jersey OMB's Circular 04-04, "Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid". Those standards, OMB Circular A-133 and New Jersey OMB's Circular 04-04, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal and state program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Authority's compliance with those requirements.

In our opinion, the Bayshore Regional Sewerage Authority, in the County of Monmouth, State of New Jersey complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal or state programs for the year ended December 31, 2011.

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-34-

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**BART & BART CERTIFIED PUBLIC ACCOUNTANTS**

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR AND STATE OF NEW JERSEY OMB CIRCULAR 04-04 (Continued)

To the Board of Commissioners  
Bayshore Regional Sewerage Authority  
Union Beach, New Jersey

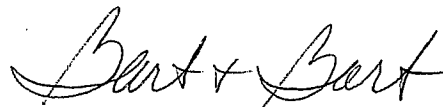
Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal and state programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on major federal or state programs to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on the internal control over compliance in accordance with OMB Circular A-133 and New Jersey OMB Circular 04-04 but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal or state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to material weaknesses, as defined above.

This report is intended solely for the information of the management and members of the Authority's Board, federal and state awarding agencies and for filing with the Division of Local Government Services, Department of Community Affairs, State of New Jersey and is not intended to be and should not be used by anyone other than these specified parties.



Bart & Bart, CPAs

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Bayshore Regional Sewerage Authority

County of Monmouth, New Jersey

Schedule of Expenditures of Federal Awards and State Assistance

For the Year Ended December 31, 2012

Federal Grantor/Program Title

U.S. Environmental Protection Agency  
Passed through State of NJ Department  
Of Environmental Protection:

Clean Water:

2010 American Recovery and Reinvestment  
Act of 2010 ("ARRA")

Wind Turbine and Treatment Plant  
Improvements

Loan  
Grant

Principle Forgiveness

<u>Federal CFDA Number</u>	<u>State Agency Pass-through Number</u>	<u>Award Amount</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>
66.458	42 4860 71I	1,925,000	176,829	1,925,000
66.458	42 4860 71I	1,925,000	173,146	173,146
66.458	42 4860 71I	3,850,000	\$ -	\$ 3,850,000
			<u>\$ 349,975</u>	<u>\$ 5,948,146</u>

BAYSHORE REGIONAL SEWERAGE AUTHORITY  
NOTES TO THE SCHEDULES OF EXPENDITURES OF  
FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE  
YEAR ENDED DECEMBER 31, 2012

1. GENERAL

The accompanying schedules of expenditures of federal awards and state financial assistance include federal and state award activity of the Bayshore Regional Sewerage Authority ("Authority"). The Authority is defined in Note 1 (A) to the Authority's basic financial statements. All federal and state awards received directly from federal and state agencies, as well as federal awards and state financial assistance passed through other governmental agencies is included on the schedules or expenditures of federal awards and state financial assistance.

2. BASIS OF ACCOUNTING

The accompanying schedules of expenditures of federal awards and state financial assistance are presented on the accrual basis of accounting. These bases of accounting are described in Note 1 to the Authority's basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audit of States, Local Governments, and Non-Profit Organizations and NJ OMB Circular 04-04. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Amounts reported in the accompanying schedules agree with the amounts reported in the Authority's basic financial statements.

4. RELATIONSHIP TO FEDERAL AND STATE FINANCIAL REPORTS

Amounts reported in the accompanying schedules agree with the amounts reported in the related federal and state financial reports.

5. FEDERAL AND STATE LOANS OUTSTANDING

The Authority has no loans outstanding payable to federal or state entities at December 31, 2012.

THE BAYSHORE REGIONAL SEWERAGE AUTHORITY  
COUNTY OF MONMOUTH, NEW JERSEY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

MAJOR FEDERAL AWARD PROGRAMS

Section 1 - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified dated  
April 4, 2012

Internal control over financial reporting:

1. Material weakness(es) identified? \_\_\_ yes    X no

2. Significant deficiencies identified that are not considered to be material weaknesses? \_\_\_ yes    X no

Noncompliance material to general-purpose financials Statements noted? \_\_\_ yes    X no

State Financial Assistance

Internal control over major programs:

1. Material weakness(es) identified? \_\_\_ yes    X no

2. Reportable condition(s) identified that are not considered to be material weaknesses? \_\_\_ yes    X no

Type of auditor's report issued on compliance for Major programs: Unqualified dated  
April 4, 2012

Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133? \_\_\_ yes    X no

Identification of major programs:

Federal Grant Number:	Name of Program or Cluster
66.458	Clean Water

Dollar threshold used to distinguish between Type A and Type B Programs: \$300,000.00.

Auditee qualified as low-risk auditee? \_\_\_ yes    X no

THE BAYSHORE REGIONAL SEWERAGE AUTHORITY  
COUNTY OF MONMOUTH, NEW JERSEY  
SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS  
YEAR ENDED DECEMBER 31, 2012

FOR THE YEAR ENDED JANUARY 31, 2011:

There were no findings for the year ended December 31, 2011.

Bayshore Regional Sewerage Authority  
General Comments and Recommendations  
For the Year Ended December 31, 2012

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified Opinion issued on Financial Statements - presented in accordance with "auditing standards generally accepted in the United States of America" dated March 26, 2013.

Internal control over financial reporting:

- 1) Material Weakness identified? NO
- 2) Significant deficiencies identified that are not considered to be a Material Weakness? NO

Non-Compliance material to Financial Statements noted? NO

II. FINDINGS RELATING TO THE FIANCNIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS.

NONE

